State of South Carolina

Office of the State Auditor

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June 20, 2000

The Honorable James H. Hodges, Governor
and
Members of the Commission
South Carolina Employment Security Commission
Columbia, South Carolina

This report on the audit of the financial statements of the South Carolina Employment Security Commission for the fiscal year ended June 30, 1998, was issued by Rogers & Laban, PA, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/trb

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION
COLUMBIA, SOUTH CAROLINA

FINANCIAL AND COMPLIANCE REPORT

YEAR ENDED JUNE 30, 1998

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

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YEAR ENDED JUNE 30, 1998

ROGERS & LABAN, PA
CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

Mr. Thomas L. Wagner, Jr., CPA
State Auditor
State of South Carolina
Columbia, South Carolina

We have audited the accompanying financial statements of the South Carolina Employment Security Commission (the Commission) as of and for the year ended June 30, 1998, as listed in the table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, and standards for financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the financial statements of the South Carolina Employment Security Commission are intended to present the financial position and results of operations of only that portion of the funds of the State of South Carolina financial reporting entity that is attributable to the transactions of the South Carolina Employment Security Commission.

The Commission declined to present a statement of revenues, expenditures, and changes in fund balances – budget and actual for the year ended June 30, 1998. Presentation of such a statement for those governmental funds for which budgets have been legally adopted is required by generally accepted accounting principles.

In our opinion, except that the omission of the statement of revenues, expenditures and changes in fund balances – budget and actual results in an incomplete presentation as explained in the preceding paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the South Carolina Employment Security Commission as of June 30, 1998, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

As discussed in Notes 18 and 19 management discovered that certain errors were made in the application of accounting principles resulting in the over and under reporting of various assets and liabilities and also that certain assets, liabilities, revenues, expenditures and fund balances were misclassified in prior years. Also, as explained in Notes 1 and 5, the Commission changed its capitalization policy from $500 to $1,000 for furniture and equipment and changed its presentation of expenditures in its general fund.

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Our audit was performed for the purpose of forming an opinion on the financial statements of the South Carolina Employment Security Commission taken as a whole. The other supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Also, the accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated April 28, 2000, on our consideration of the Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Rogers & Laban, PA

Columbia, South Carolina
April 28, 2000

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 1998

	Governmental Fund Types			Fiduciary Fund Type	Account Groups	
	General	Special Revenue	Capital Projects	Expendable Trust	General Fixed Assets	General Long-Term Debt
ASSETS AND OTHER DEBITS						
Cash and cash equivalents	$ 18,860,616	$ 357,436	$	$ 722,619,377	$	$
Accrued interest receivable				12,071,823		
Taxes receivable - net	2,827,493			42,259,831		
Due from reimbursable employers - net				226,617		
Intergovernmental receivables - net:						
State				517,059		
Local governments				623,337		
Other states				585,598		
Federal	3,126,704	44,348				
Benefit overpayments receivable - net				5,872,410		
Capital improvement bond proceeds receivable			239,455			
Interfund receivables:						
Expendable Trust Fund	1,101,865					
Subrecipient advances - receivable	941,966					
Inventories	312,660					
Prepaid items	760,222					
Property and equipment:						
Land and land improvements					2,503,741	
Buildings and improvements					21,886,331	
Furniture and equipment					15,848,540	
Construction in progress					265,109	
Amount to be provided for retirement of general long-term debt						10,471,942
TOTAL ASSETS AND OTHER DEBITS	$ 27,931,526	$ 401,784	$ 239,455	$ 784,776,052	$ 40,503,721	$ 10,471,942

See accompanying Notes to Financial Statements.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS (CONTINUED)
JUNE 30, 1998

	Governmental Fund Types			Fiduciary Fund Type	Account Groups	
	General	Special Revenue	Capital Projects	Expandable Trust	General Fixed Assets	General Long-Term Debt
LIABILITIES, FUND EQUITY AND OTHER CREDITS						
LIABILITIES:						
Accounts payable	$ 3,770,695	$ 7,668	$	$ 145,762	$	$
Accrued salaries and related benefits	3,489,633	22,698				
Intergovernmental payables:						
Federal				401,721		
Contributions payable				2,760,062		
Interfund payables						
General Fund				1,101,865		
Due to General Fund of the State	98,373					
Deferred revenue	13,130,372			12,259,054		
Capital lease payable						1,318,307
Liability for Capital Improvement Bond notes payable						3,941,637
Accrued compensated absences and related benefits						5,211,998
TOTAL LIABILITIES	20,489,073	30,366		16,668,464		10,471,942
FUND EQUITY AND OTHER CREDITS:						
Investment in general fixed assets					40,503,721	
Fund balances:						
Reserved for Reed Act expenditures				53,522		
Reserved for unemployment benefits				768,054,066		
Reserved for Capital Projects expenditures			239,455			
Reserved for SCOICC		371,418				
Unreserved fund balance:						
Undesignated fund balance	7,442,453					
TOTAL FUND EQUITY AND OTHER CREDITS	7,442,453	371,418	239,455	768,107,588	40,503,721	
TOTAL LIABILITIES, FUND EQUITY AND OTHER CREDITS	$ 27,931,526	$ 401,784	$ 239,455	$ 784,776,052	$ 40,503,721	$ 10,471,942

See accompanying Notes to Financial Statements.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 1998

	Governmental Fund Types			Fiduciary Fund Trust
	General	Special Revenue	Capital Projects	Expendable Trust
REVENUES:				
Employer tax contributions	$ -	$	$	$ 165,703,475
Employer tax contingency assessment	6,842,197			
Employer tax - penalties and interest	1,000,750			
Reimbursement of unemployment compensation benefits from employers				1,068,296
Benefit overpayment recoveries				2,459,538
User fees	124,831	355,619		
Intergovernmental:				
Local				2,831,021
State (South Carolina)	284,865	250,554		2,308,298
Other states				2,914,554
Federal	81,754,071	132,257		6,775,859
Interest/investment income				46,787,037
Miscellaneous revenues	362,904			
TOTAL REVENUES	90,369,618	738,430		230,848,078
EXPENDITURES:				
Current:				
Employment and training administration	34,979,386			
Contingency assessment	5,618,074			
Penalties and interest	695,326			
Job Training Partnership Act	40,133,801			
Welfare to Work	733,753			
Other federal programs	4,007,293			
Other non-federal programs	399,559			
Parking	89,612			
Occupational Information Coordinating Committee		622,929		
Unemployment compensation benefits - State				166,726,874
Unemployment compensation benefits - Federal				6,900,685
Capital outlay	1,796,971	56,800	671,663	
Debt service:				
Principal	929,356	780		
Interest	347,112	121		
TOTAL EXPENDITURES	89,730,243	680,630	671,663	173,627,559
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	639,375	57,800	(671,663)	57,220,519
OTHER FINANCING SOURCES (USES):				
Operating transfers in			598,866	36,209
Operating transfers out	(635,075)			
Refunds to grantors				(4,861)
Proceeds from capital leases	277,556			
Proceeds from the sale of fixed assets	264,096	40		
TOTAL OTHER FINANCING SOURCES (USES)	(93,423)	40	598,866	31,348
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	545,952	57,840	(72,797)	57,251,867
BEGINNING FUND BALANCES, as previously reported	3,973,610	313,578	312,252	668,036,795
PRIOR PERIOD ADJUSTMENTS	2,922,891			42,818,926
BEGINNING FUND BALANCES, as restated	6,896,501	313,578	312,252	710,855,721
ENDING FUND BALANCES	$ 7,442,453	$ 371,418	$ 239,455	$ 768,107,588

See accompanying Notes to Financial Statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the South Carolina Employment Security Commission (Commission) conform to generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Commission's accounting principles are described below.

Reporting Entity

The core of the financial reporting entity is the primary government, which has a separately elected governing body. As required by generally accepted accounting principles, the financial reporting entity includes both the primary government and all of its component units. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The Commission has determined it has no component units. The primary government is the State of South Carolina. The State has determined that the Commission is a part of the primary government.

An organization other than a primary government may serve as a nucleus for a reporting entity when it issues separate financial statements. That organization is identified herein as a primary entity.

The primary government or entity is financially accountable if it appoints a voting majority of the organization's governing body, including situations in which the voting majority consists of the primary entity's officials serving as required by law (e.g., employees who serve in an ex officio capacity on the component unit's board are considered appointments by the primary entity) <u>and</u> (1) it is able to impose its will on that organization <u>or</u> (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary entity. The primary entity also may be financially accountable if an organization is fiscally dependent on it even if it does not appoint a voting majority of the board. An organization is fiscally independent if it holds all three of the following powers:

(1) Determines its budget without another government having the authority to approve and modify that budget;
(2) Levies taxes or set rates or charges without approval by another government; or,
(3) Issues bonded debt without approval by another government.

Otherwise, the organization is fiscally dependent on the primary government/entity that holds one or more of these powers.

Enactment of the first <u>South Carolina Unemployment Compensation Law</u> followed action by Congress in passing the Social Security Act on August 14, 1935. The original South Carolina law, which established a free public employment service and a system of unemployment insurance, became effective June 6, 1936. In 1966, the name of the Law was changed to the <u>South Carolina Employment Security Law</u>.

The Commission was created by Section 41-29-10 of the South Carolina Code of Laws to administer the South Carolina Employment Security Law which provides for the payment of unemployment insurance benefits, the collection of the unemployment tax from subject employers, and the operation of a statewide employment service. The administrative costs of the Commission are paid from grants primarily from the U.S. Department of Labor. The Unemployment Insurance Program collects taxes from employers covered by the law, and pays out unemployment benefits to unemployed workers under both state and federal law.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Reporting Entity (Continued)

The Employment Service Program operates as a free labor exchange where workers and jobs are brought together from local offices located throughout the State. Workers of all skills, professions and types, including veterans, migrant and seasonal farm workers, youth, older workers and the disabled are placed in suitable jobs by the local State Employment Service/Job Service. Special emphasis is given to the job placement of Unemployment Insurance claimants. The Employment Service Program is affiliated with the U.S. Employment Service.

In addition, the Commission maintains a comprehensive Labor Market Information Program. Also, the agency serves as the administering unit for the Job Training Partnership Act as designated by the Governor.

The Commission is granted an annual appropriation for operating purposes as authorized by the South Carolina General Assembly. The appropriation, as enacted, becomes the legal operating budget for the Department. The Appropriations Act authorizes expenditures from the General Fund of the State and authorizes expenditures of total funds.

The Commission, a primary entity, is a Department and part of the primary government of the State of South Carolina. The funds and account groups of the Commission are included in the Comprehensive Annual Financial Report of the State of South Carolina. The three-member commission is elected by the South Carolina General Assembly for four-year terms.

The laws of the State and the policies and procedures specified by the State for State agencies are applicable to the activities of this entity. The reporting entity operates somewhat autonomously, but lacks full corporate powers. The accompanying financial statements present the financial position and results of operations and note disclosures of only those transactions of the State of South Carolina, the primary government, that are attributable to the Commission reporting entity defined above.

Fund Accounting

The Commission uses funds and account groups to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with related liabilities and residual equities or balances and changes therein which are segregated to carry on specific activities or attain certain objectives in accordance with applicable regulations, restrictions, or limitations. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund types. Accordingly, all financial transactions in the combined statements have been reported by fund type. An account group is a financial reporting device designed to provide financial accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

Funds are classified into three categories: governmental, proprietary and fiduciary. Each category, in turn, is divided into separate "fund types". The Commission does not have any proprietary funds.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Governmental Fund Types

Governmental Funds – Governmental funds are used to account for the government's general government activities. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used; current liabilities are assigned to the fund from which they are to be paid; and the differences between the assets and liabilities is the fund balance.

General Fund – The general fund accounts for the various federal grants and other revenue sources (other than those legally or contractually restricted and those for major capital projects) which the Commission receives for administrative purposes and special projects and for all other resources except those required to be accounted for in another fund. Federal grants received for unemployment compensation benefits are accounted for in the unexpendable trust fund. Federal grants received for Employment and Training Administration, Job Training Partnership Act, and other Federal financial assistance not accounted for in the expendable trust and other governmental funds are accounted for in the general fund. The general fund includes the following accounts:

Employment and Training Administration (ETA Administrative) – The division of the U.S. Department of Labor which administers Employment Services, Unemployment Insurance, and Job Training Partnership Act Programs includes administrative funds in the Unemployment Insurance, Employment Service (ES), and ES Reimbursable Programs.

Employment Security Administrative Contingency Assessment (UI Contingency Assessment) – The assessment was established by the Legislature in 1986 in response to Federal budget cuts which would have forced office closing and reductions in staff. The assessment was created by reducing the existing unemployment tax rates at the time by the percentage needed to generate the amount of funds required to cover the Federal budget cuts. Employers overall taxes were not increased. The contingency assessment portion of the tax is accounted for in the General Fund which is used primarily to fund administrative costs and employment services, whereas the unemployment tax is used to fund unemployment compensation benefits in the Expendable Trust Fund.

Special Administrative Fund (UI Penalties and Interest) – Employers who do not submit any reports required by the date such reports are due are subject to a penalty and must pay interest on unpaid contributions. The monies are transferred to the Administrative Account each month.

Job Training Partnership Act (JTPA) – The Commission contracts with each of the state's twelve (12) Service Delivery Areas (SDAs) to provide services and/or training for JTPA training programs, except Job Corps. The agency's Job Corps activities are funded directly by the Job Corps Regional Office, the U.S. Department of Labor.

The Commission contracts with the SDAs to provide eligibility determination and certification for JTPA and eligibility determination for need-based payments for most activity grantees throughout the state. The agency also contracts with the SDAs to disburse needs-based payments and participant support payments to participants. In six (6) SDAs, the agency operates On-The-Job Training Programs.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Governmental Fund Types (Continued)

General Fund (Continued)

The funding methods specified in the Commission's contracts with its subrecipients include advance payments and cost reimbursement.

JTPA is a federal program which provides funds for job training, usually earmarked for the economically disadvantaged or for dislocated workers from plant closures and layoffs. The Commission was named by the Governor to be South Carolina's Grantee and administer the program. The Governor's Job Training Council sets policy and provides oversight. Private Industry Councils make decisions concerning training for the twelve (12) SDAs in the state and contract with local technical colleges, universities, community based organizations, and other training vendors. Certification of Eligibility is provided in local Job Service offices for most of the programs.

Welfare to Work Program (WtW)

Effective February 24, 1998, the Commission serves as the administrative entity for the Welfare-to-Work Program in South Carolina. This includes planning coordinated services with the 12 service delivery areas and managing the state level grants for special projects. In addition, the Commission provides technical assistance to grantees and conducts programmatic and financial monitoring of the grants.

The allocation is two-thirds federal funds with a one-third state match. Eighty-five percent of the funds are allocated to the local service delivery areas and fifteen percent is reserved for state level grants.

The funding methods specified in the Commission's contracts with its subrecipients include advance payments and cost reimbursement.

The Welfare-to-Work Program is a federal program designed to serve recipients of Temporary Assistance for Needy Families (TANF) by providing activities/services to help move the participants from dependency toward self-sufficiency utilizing a "work-first" philosophy. Allowable program activities include community service, work experience, job creation through wage subsidies, on the job training, job readiness, post-employment services, job retention and support services, individual development accounts, intake, eligibility determination, assessment, and case management.

Other Funds – Includes funds received from the United States Department of Labor – Bureau of Labor Statistics, United States Department of Labor – Veterans Employment and Training, United States Department of Health and Human Services – Office of Refugee Resettlement and Office of Child Support Enforcement; and United States Department of Agriculture – Food Stamp Job Search. These funds are primarily used for administration and employment services expenditures.

The Commission publishes Labor Market Information for the State of South Carolina, from information gathered under a federal grant from the Department of Labor – Bureau of Labor Statistics. This information is published and available to the public. A user fee is collected for each publication sold to the public. These user fees are used to pay for program expenses such as personal services, supplies, etc.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Governmental Fund Types (Continued)

Parking – The Parking Fund accounts for collections of payroll deductions for reserved parking for the Commission's employees. The payroll deductions are accounted for in the General Fund as other revenue and fees are used to offset the cost of additional security related expenses, as an administrative expense.

Special Revenue Fund – The special revenue fund generally records expenditures of revenues that are legally or contractually restricted to specific programs or projects other than those projects reported in the capital projects fund or expendable trust fund. The special revenue fund accounts for financial transactions relating to the South Carolina Occupational Information Coordinating Committee (SCOICC). SCOICC is a consortium of agencies mandated by the Carl D. Perkins Vocational Education Act. The Commission is one of eight South Carolina participating agencies. The SCOICC is chaired by the Executive Director of the Commission, and the Commission acts as fiscal agent.

The primary function of the SCOICC is to improve coordination, communication, and cooperation in the development and use of occupational information to meet the common occupational information and data needs of the vocational education programs and the employment and training programs at national, state and local levels. In addition, the SCOICC is charged with giving special attention to the career and educational needs of individuals involved in career decision making.

The SCOICC user fees are collected from each site that participates in the statewide telephone dial-up network. The network delivers up-to-date occupational, educational, employment and career guidance information to career decision makers and job seekers. These user fees are used to pay for program expenses such as personal services, telephone connect charges, supplies, etc.

The fund is dependent on federal and state subsidies to supplement and support these programs.

Capital Projects Fund – The capital projects fund accounts for the acquisition or construction of major capital facilities. Such resources are derived primarily from federal aid, proceeds from general obligation bonds of the State and transfers from the Contingency Assessment account in the general fund.

Fiduciary Fund Types

Expendable Trust Fund – The expendable trust fund accounts for all financial transactions related to employer tax contributions, employer reimbursements in lieu of tax contributions, and federal and other funds used for the payment of unemployment compensation benefits. Interest income earned on excess funds on deposit with the U.S. Treasury is retained in the fund for the payment of unemployment compensation benefits. The expendable trust fund includes the following funds:

Basic Unemployment Compensation (UI) – This fund accounts for regular unemployment benefits paid to individuals. It is funded by quarterly tax remittances from employers within the state, as well as reimbursement from other states, recoupment on overpayments, and interest received on the trust fund.

Unemployment Compensation for Federal Employees (UCFE) – This fund accounts for unemployment paid to ex-federal employees. It is funded by the Federal Government.

Unemployment Compensation for Ex-Servicemen (UCX) – This fund accounts for unemployment paid to ex-servicemen. It is funded by the Federal Government.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Fiduciary Fund Types – Expendable Trust Fund (Continued)

Extended Benefits (EB) – This fund accounts for unemployment paid to individuals who have exhausted their regular UI benefits during periods of high unemployment. Fifty percent of regular EB and TEB (individuals who worked for nonprofit organizations) is funded by the Federal Government. The State pays the remainder.

Trade Readjustment Allowance (TRA) – This fund accounts for unemployment paid to individuals who have lost their jobs due to foreign trade. These payments are made after regular UI benefits and EB have been exhausted. It is funded by the Federal Government.

Emergency Unemployment Compensation (EUC) – This fund provides unemployment benefits to individuals who had no rights to the regular, extended, or additional benefits under State law. It is funded 100% by the Federal Government. This program ended April 30, 1994. The remaining activity consists of benefit overpayment recoveries which are refunded to the Federal Government.

Account Groups

The Commission uses account groups to establish control over and accountability for its general fixed assets and the unmatured principal of its general long-term debt.

General Fixed Assets Account Group - This group of accounts is established to account for all fixed assets of the Commission including construction in progress.

General Long-Term Debt Account Group - This account group records the outstanding balance of any unmatured general long-term obligation which is to be liquidated from governmental fund resources. Such liabilities include the compensated absences liability, capital leases payable and notes payable.

Basis of Accounting

All governmental and fiduciary funds of the Commission are accounted for using a current financial resources measurement focus whereby only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets.

The modified accrual basis of accounting is utilized for governmental fund types and the Commission's expendable trust funds. Revenues are recognized in the accounting period in which they become "susceptible to accrual", i.e., become both available and measurable. All revenues have been treated as "susceptible to accrual" except for: (1) those revenues which become available only as expenditures are incurred, e.g., revenues in the Special Revenue Fund, (2) that portion of employer tax contributions and related receivables due prior to year-end but not collected within sixty days subsequent to year-end, (3) that portion of employer tax contributions collected in excess of employer tax liabilities, and (4) that portion of unemployment benefit overpayments due prior to year but not collected within sixty days subsequent to year end. Expenditures are recognized when the related fund liability is incurred, if measurable, except for unmatured interest on general long-term debt, which is recognized when due.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Basis of Accounting (Continued)

Operating transfers in and out are recognized in the accounting period in which the interfund payable and receivable arise. Operating transfers do not represent loans, reimbursements or quasi-external transactions.

Budget Policy

The Commission is granted an annual appropriation for operating purposes by the General Assembly. The appropriation as enacted becomes the legal operating budget for the Commission. The Appropriation Act authorizes expenditures from funds appropriated from the General Fund of the State and authorizes expenditures of total funds. The Total Funds column in the Appropriation Act for each individual budgetary unit authorizes expenditures from all budgeted resources. A revenue budget is not adopted for individual budgetary units. The General Assembly enacts the budget through passage of line-item appropriations by program within budgetary unit within budgetary fund category, State General Fund or other budgeted funds. Budgetary control is maintained at the line-item level of the budgetary entity. Agencies may process disbursement vouchers in the State's budgetary accounting system only if enough cash and appropriation authorization exist.

Transfers of funds may be approved by the State Budget and Control Board under its authority or by the agency as set forth in Appropriation Act Proviso 72.9 as follows: Agencies shall be authorized to transfer appropriations within programs and within the agency with notification to the Division of Budget and Analyses and the State Comptroller General. No such transfer may exceed twenty percent of the program budget. Transfers from personal services accounts or from other operating accounts may be restricted to any level set by the Board.

During the fiscal year-end closeout period in July, agencies may continue to charge vendor, interagency, and interfund payments for the fiscal year to that fiscal year's appropriations. Any unexpended State General Fund monies as of June 30 automatically lapse to the General Fund of the State on July 31 unless authorization is received from the General Assembly to carry over the funds to the ensuing fiscal year. State law does not require the use of encumbrance accounting.

State law does not precisely define the budgetary basis of accounting. The current Appropriation Act states that the General Assembly intends to appropriate all State funds and to authorize and/or appropriate the use of all other monies to operate State government for the current fiscal year. The State's annual budget is prepared primarily on the modified accrual basis of accounting with several exceptions, principally the cash disbursements basis for payroll expenditures.

The Commission has not presented a statement of revenues, expenditures and changes in fund balances – budget and actual as required by generally accepted accounting principles.

Cash and Cash Equivalents

The amounts shown in the financial statements as "cash and cash equivalents" represent petty cash, cash on hand with the State Treasurer, cash invested in various instruments by the State Treasurer as part of the State's cash management pool and cash on deposit with the U.S. Treasury and in various banks.

Most State agencies, including the Commission, participate in the State's internal cash management pool. Because the cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. The State Treasurer administers the cash management pool. The pool includes some long-term investments such as obligations of the United States and certain agencies of the United States, obligations of the State of South Carolina and certain

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Cash and Cash Equivalents (Continued)

of its political subdivisions, certificates of deposit, collateralized repurchase agreements, and certain corporate bonds. The pool operates as a demand deposit. For credit risk information pertaining to the cash management pool, see the deposits disclosure in Note 2.

The State's internal cash management pool consists of a general deposit account and several special deposit accounts. The State records each fund's equity interest in the general deposit account; however, all earnings on that account are credited to the General Fund of the State. The Commission records and reports its deposits in the general deposit account at cost.

Some State Treasurer accounts are not included in the State's internal cash management pool because of restrictions on the use of the funds. For those accounts, cash equivalents include investments in short-term highly liquid securities having an initial maturity of three months or less.

Receivables/Deferred Revenue

Receivables and related deferred revenue consist of the following:

(a) Taxes Receivable – Net

Taxes receivable- net includes employer tax contributions, contingency assessments and related penalties, interest and collection charges, net of the allowance for uncollectibles.

Unemployment tax contributions are assessed each quarter based on covered wages during the quarter. Also, effective January 1, 1986, most covered employers are assessed a special contingency assessment at the rate of six one-hundredths of one percent upon all covered wages. This contingency assessment is due in the same time and manner as the unemployment tax contribution.

Taxes and contingency assessments for a quarter are due on or before the end of the month following the close of the quarter. Amounts not paid by such date are considered delinquent and the Commission is required to notify employers of such tax delinquencies. If the delinquent amount is not paid within ten days thereafter, the Commission is directed to issue a warrant of execution upon real and personal property of the employer.

Various penalties and interest are levied on delinquent employer receivables for failure to timely file quarterly wage reports and timely make the required payments.

Receivables in excess of twelve months are written off unless it goes into tax execution. Uncollectible receivables in tax execution are written off after ten years. The provision for uncollectibles for receivables in excess of six months is established based on a three-year historical collection experience for those receivables.

Receivables are written off by reducing the allowance account and the corresponding receivable.

Deferred revenue related to taxes receivable is that portion of the net receivable that is not collected within sixty days.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Receivables/Deferred Revenue (Continued)

(b) Due from Reimbursable Employers – Net

The amounts due form reimbursable employers – net includes those amounts attributable to the actual benefits paid on behalf of certain non-profit employers to former employees net of the allowance for uncollectibles.

The provision for uncollectibles for receivables in excess of six months is established based on a three-year historical collection experience for these receivables. The Commission's policy is to write off collectibles that are twelve months old unless the receivable goes into tax execution. Uncollectible receivables in tax execution in excess of ten years are written off. Receivables are written off by reducing the allowance account and the corresponding receivable.

Deferred revenues related to the amounts due from reimbursable employers is that portion of the net receivable that is not collected within sixty days.

(c) Intergovernmental Receivables

The federal receivable amount represents reimbursements due under various federal grant programs in which the Commission participates. Revenues and related receivables are recognized at the time and to the extent that allowable expenditures are incurred under such programs.

The amounts due from the State, local governments and other states represent unemployment benefit reimbursements due from other South Carolina state agencies. The benefit reimbursement receivable from other states is based on the prorata share of wages earned by the employees to which benefits are being paid by South Carolina in those states.

Deferred revenues related to the intergovernmental receivables due from local governments and other states is that portion of the receivable that is not collected within sixty days.

(d) Benefit Overpayments Receivable

Overpayments of unemployment compensation benefits occur due to changes in facts or estimates upon which benefits were originally paid or by claimant fraud. Overpayments are due upon detection or discovery and are recovered by cash recoupments or withheld from subsequent benefits due the claimants. During 1986, the State enacted a law which provides for recovery of overpayments by the South Carolina Department of Revenue from State income tax refunds. Benefit overpayments attributable to reimbursable employers or federal programs are due to such employers or the Federal Government. The Commission generally uses collection on overpayments to fund current benefit obligations. Refunds are made only when there are no current benefit obligations. Benefit overpayment receivables recorded net of an allowance for uncollectibles.

Benefit overpayment receivables in excess of three years are written off if not collected. The provision for uncollectibles for receivables is applied to the entire receivable balance and is established based on a three-year historical collection experience. Receivables are written off by reducing the allowance account and the corresponding receivables.

Deferred revenue related to benefit overpayment receivables – net is that portion of the net receivable that is not collected within sixty days.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Receivables/Deferred Revenue (Continued)

(e) Deferred Revenue on Federal and State Grants

Deferred revenue related to federal and state grants is that portion of revenue that was received but not earned as of June 30.

Fixed Assets

General fixed assets acquired or constructed are recorded as expenditures from the applicable governmental fund and are capitalized at cost in the general fixed asset account group. Major capital additions which are being constructed over several years are recorded as expenditures in the applicable governmental fund and simultaneously capitalized as construction in progress in the General Fixed Assets Account Group. When construction projects are completed, they are reclassified from construction in progress to the appropriate general fixed asset category. Improvements include additions, alterations, remodeling and other improvements of any kind to an existing structure, building or real property. Equipment additions which are obtained through capital lease contracts are capitalized in the General Fixed Assets Account Group in the year of acquisition at their total costs, excluding interest charges. Payments of principal and interest on such contracts are recorded as equipment expenditures except for those for telephone equipment from the State Budget and Control Board – Division of Information Resources Management which are recorded as debt services expenditures of the general fund and special revenue fund when the capital lease payments are made. Donated assets are valued at their fair market value when received. Fixed assets are not depreciated in accordance with generally accepted accounting principles for governmental entities. Furniture and equipment costing more than $1,000 and having a useful life of more than one year is capitalized. Assets transferred to the Commission from another State agency are recorded at that agency's acquisition cost. Prior to July 1, 1997, the Commission capitalized furniture and equipment costing $500 or more and having a useful life of more than one year.

Interest is capitalized on general fixed assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds from the same period.

Compensated Absences

Generally all permanent full-time State employees and certain part-time employees scheduled to work at least one-half of the agency's work week are entitled to accrue and carry forward at calendar year-end maximums of 180 days sick leave and of 45 days annual vacation leave. Upon termination of State employment, employees are entitled to be paid for accumulated unused annual vacation leave up to the maximum, but are not entitled to any payment for unused sick leave. The compensated absences liability includes accrued annual leave earned for which the employees are entitled to paid time off or payment at termination. The leave liability also includes an estimate for accrued sick leave and leave from the agency's leave transfer pool for employees who have been approved as leave recipients under personal emergency circumstances which commenced on or before June 30, 1998. The Commission calculates the gross compensated absences liability based on recorded balances of unused leave. The entire unpaid liability for which the employer expects to compensate employees through paid time off or cash payments, inventoried at fiscal year-end current salary costs and the cost of the salary-related benefit payments, is recorded in the general long-term debt group of accounts.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Indirect Cost Recoveries

The Commission recovers indirect cost from federal funding sources based on negotiated indirect cost agreement approved by the U.S. Department of Labor, Office of Cost Determination. The indirect cost recovered via this agreement is used to offset the administrative costs of the Commission and services provided by other state agencies. During the period July 1, 1997 through June 30, 1998, the Commission recovered $6,805,826 of indirect cost from the above agreement, from the various federal agencies. Of this amount, $393,492 was remitted to the State and $6,412,334 was retained by the Commission to offset administrative costs. Indirect cost recoveries are reported as federal revenues. The $393,492 is reported as expenditures of the various programs.

Interfund Transactions

Expenditures are initially recorded in the fund making the disbursement. However, if they are properly applicable to another fund, a reimbursement must be recorded. Reimbursements from one fund to another are treated as expenditures of the reimbursing fund and a reduction of the expenditures or expenses of the reimbursed fund. The primary transaction that falls into this category is indirect costs, which are allocated to the various funds through the Commission's cost allocation system.

Transfers from funds receiving revenues to funds through which the resources are to be expended are classified as operating transfers. The primary transaction which falls into this category is that portion of unemployment insurance taxes, penalties and interest and the contingency assessment which is initially received in the General Fund and subsequently transferred to the Capital Projects Fund for construction. There have been no elimination of interfund transactions in the financial statements.

Inventories

Inventory items consisting primarily of supplies and blank forms benefiting more than one accounting period are accounted for under the consumption method and recognized as expenditures when used. Inventories are stated at a moving weighted average cost.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond the fiscal year end are recorded as prepaid items. Prepaid items benefiting more than one accounting period are accounted for under the consumption method, and recognized as expenditures when used. These services include maintenance contracts on data processing and office equipment, equipment rentals and professional services, software cost paid in advance and insurance coverage.

Intergovernmental Payables

Amounts reflected as intergovernmental payables – federal in the General Fund represent unexpended funds received for special projects in which the Commission participates.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Contributions Payable

Contributions payable includes amounts received from employers in excess of current unemployment tax liabilities. The Commission maintains the "credits" on account to cover future tax liabilities.

Fund Equity

Reserves represent those portions of governmental and Expendable Trust Fund balances not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative managerial plans for future use of unreserved financial resources. At June 30 1998, three of the Commission's reserves were as follows:

Reed Act Funds – The Commission has funds totaling $53,522 available under the Reed Act. These funds have not been appropriated by the General Assembly. A reserve has been established to account for the funds until they are legally appropriated.

SCOICC – Pursuant to 1998 Appropriation Act Proviso 65.3, all user fees collected by the South Carolina Occupational Information Coordinating Committee through the Commission may be retained to use for operating the South Carolina Occupational Information System. All user fees not expended in the prior fiscal year were brought forward for use in the current fiscal year. As provided by 1999 Appropriation Act Proviso 51.3, all user fees not expended in fiscal year 1998 may be carried forward to fiscal year 1999 for use in the SCOICC program. At June 30, 1998, $371,418 was carried forward and is reported as a reserved fund balance.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Changes in Presentation

In prior years, the Commission presented a statement of revenues, expenditures and changes in fund balance with administrative expenditures separately reported in the general fund as budgeted in the State's Appropriation Act. In the current year, the expenditures are reported based on the program for which the expenditure was incurred.

NOTE 2. DEPOSITS:

The amounts shown as cash and cash equivalents on the balance sheet at June 30, 1998 are composed of the following:

Cash on hand	$ 800
Deposits held by State Treasurer	19,498,024
Deposits held by U.S. Treasury	721,513,965
Other deposits	824,640
Totals	$741,837,429

NOTE 2. DEPOSITS: (CONTINUED)

Deposits held by State Treasurer

State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days. At June 30, 1998, all State Treasurer bank balances were fully insured or collateralized with securities held by the State or its agent in the State's name.

With respect to investments in the State's internal cash management pool, all of the State Treasurer's investments are insured or registered or are investments for which the securities are held by the State or its agent in the state's name. Information pertaining to the reported amounts, fair values, and credit risk of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

Deposits held by U.S. Treasury

Under the provisions of Section 904(e) of the Social Security Act, the Secretary of the Treasury is authorized to credit to the account of each state agency, on a quarterly basis, a proportionate part of the earnings of the Unemployment Trust Fund (Expendable Trust Fund).

Other Deposits

The Commission's other deposits at year-end were entirely covered by federal depository insurance or collateral held by custodial banks in the Commission's name.

The Commission's other deposits are categorized to give an indication of the level of risk assumed by the entity at year-end. The credit risk categories are concerned with custodial credit risk, which is the risk that a government will not be able to recover deposits if the depository financial institution fails or to recover the value of collateral securities that are in the possession of an outside party if the counterparty to the deposit transaction fails. There are three categories of deposit credit risk as follows:

1) Insured or collateralized with securities held by the entity or by its agent in the entity's name.
2) Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.
3) Uninsured or uncollateralized, including any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the entity's name.

NOTE 3. RECEIVABLES AND DEFERRED REVENUE:

The receivable balances at June 30, 1998 of and the related allowance amounts for uncollectibles and deferred revenue are as follows:

Type	Receivables at June 30, 1998	Allowance for Uncollectibles	Net Receivable	Deferred Revenue
Taxes Receivable - Net				
General Fund				
Penalities and interest	$ 7,230,392	$ 5,986,313	$ 1,244,079	$ 940,876
Contingency assessment	1,827,906	244,492	1,583,414	120,551
Totals	$ 9,058,298	$ 6,230,805	$ 2,827,493	$ 1,061,427
Expendable Trust Fund (ETF)				
Other taxes receivable	$ 61,297,423	$ 19,037,592	$ 42,259,831	$ 6,702,249
Due From Reimbursable Employers - Net (ETF)				
Non-profit employers	$ 264,587	$ 37,970	$ 226,617	$ 86,099
Intergovernmental Receivables - Net				
State agencies (ETF)	$ 517,059	$	$ 517,059	$ -
Local governments (ETF)	$ 623,337	$ -	$ 623,337	$ 49,230
Other states (ETF)	$ 585,598	$ -	$ 585,598	$ 3,357
Federal grants				
General fund	$ 3,126,704	$ -	$ 3,126,704	$ 353,810
Special revenue fund	$ 44,348	$ -	$ 44,348	$
State grants				
General fund				$ 11,715,135
Benefit Overpayment Receivable (ETF)				
Basic Unemployment compensation (UI)	$ 7,449,645	$ 1,899,659	$ 5,549,986	$ 5,117,549
Federal employees (UCFE)	89,620	22,853	66,767	62,147
Ex-Servicemen (UCX)	241,568	61,600	179,968	168,639
Trade readjustment (TRA)	97,245	24,798	72,447	66,592
Emergency unemployment compensation (EUC)	4,351	1,109	3,242	3,192
Totals	$ 7,882,429	$ 2,010,019	$ 5,872,410	$ 5,418,119
Total deferred revenue				$ 25,389,426
Allocated to:				
General Fund				$ 13,130,372
Expendable Trust Fund				$ 12,259,054

NOTE 4. INTERFUND/INTRAFUND RECEIVABLES/PAYABLES:

Interfund Receivables/Payables

The amount shown on the financial statements as being due from the Expendable Trust Fund represents amounts which were collected for penalties and interest and contingency assessments in tax remittances from employers. That portion of the monies collected which are to be transferred to the General Fund were held in the Expendable Trust Clearing Account at June 30, 1998. Amounts due from the expendable trust fund – basic unemployment compensation to the general fund as of June 30, 1998 are as follows:

Contingency assessment	$1,010,783
Principal and interest	91,082
	$1,101,865

Other receivables/payables can occur which represent short-term borrowing from the General Fund. These amounts are made available to fund expenditures in other funds which are awaiting reimbursement from grantor agencies.

Intrafund Receivables/Payables

Additionally, intrafund transactions occur whereby accounts within the General Fund and Individual Expendable Trust Funds borrow resources on a short-term basis from other accounts/funds within that fund type. There were no intrafund receivables/payables at June 30, 1998.

NOTE 5. PROPERTY AND EQUIPMENT:

A summary of changes in general fixed assets for the fiscal year ended June 30, 1998 follows:

	Land and Improvements (1)	Buildings and Improvements	Furniture and Equipment	Construction in Progress	Totals
Beginning balances, as previously reported	$ 2,513,385	$ 21,890,867	$ 16,792,145	$ 50,184	$ 41,246,581
Prior period adjustments:					
To agree to detail listings	(202,327)	(73,590)	(36,935)	588	(312,264)
Change in capitalization policy	-	-	(1,538,056)	-	(1,538,056)
Beginning balances, as restated	2,311,058	21,817,277	15,217,154	50,772	39,396,261
Additions			1,853,770	671,664	2,525,434
Disposals	(62,600)	(132,990)	(1,222,384)		(1,417,974)
Reclassify completed construction	255,283	202,044	-	(457,327)	
Ending balances	$ 2,503,741	$ 21,886,331	$ 15,848,540	$ 265,109	$ 40,503,721

(1) Beginning July 1, 1997, the Commission elected to report land and land improvements as a combined amount. The combined account title is land and improvements as shown above.

The cost of equipment under capital lease at June 30, 1998 was $1,135,718.

NOTE 6. CHANGES IN GENERAL LONG-TERM DEBT:

A summary of changes in long-term debt for the year ended June 30, 1998 was:

	Balance, July 1, 1997, Restated	Additions	Retirements	Balance, June 30, 1998
Capital Improvement Bond Notes payable	$ 4,269,314	$ 72,797	$ 400,474	$ 3,941,637
Capital leases payable	1,570,413	277,556	529,662	1,318,307
Accrued compensated absences	5,061,187	150,811		5,211,998
	$10,900,914	$501,164	$ 930,136	$10,471,942

The change in accrued compensated absences is reported at net since the gross additions/retirements amounts are not available.

The July 1, 1997 balance as previously reported for capital leases payable has been restated to increase it from $551,288 by $1,019,125 to include the cost of maintenance, software and technical assistance financed as part of the capital lease.

NOTE 7. CAPITAL PROJECTS:

In prior years, the State authorized funds for improvements and expansion of facilities using the proceeds of state capital improvement bonds. As capital projects are authorized by the State Budget and Control Board, the bond proceeds are allocated to the projects. When the funds are authorized, the Commission records the proceeds as revenue and the bond issue costs as expenditures in the unexpended plant funds subgroup. These authorized funds can be requested as needed once State authorities have given approval to begin specific projects. The Commission is not obligated to repay these funds to the State until they have been drawn down. The total balance for the undrawn portions of the authorizations is reported in the combined balance sheet as "capital improvement bond proceeds receivable."

During 1987, the Commission embarked on an extensive building program to replace leased office space with permanent office buildings. This program is being funded primarily by federal grant funds and general obligation bonds. Repayment of the general obligation bonds is the responsibility of the Commission. The issuance of the bonds authorized for the office buildings program is conditioned on an agreement with the appropriate federal authorities under which federal funds will be available to cover the retirement of the bonds. A summary of the balance receivable from this authorization as of June 30, 1998 follows:

Act	Total Authorized	Amount Drawn in Prior Years	Amount Drawn in Fiscal Year Ended June 30, 1998	Balance Authorized June 30, 1998
538 of 1987	$5,607,000	$5,294,748	$72,797	$239,455

The bonds are payable in semiannual installments plus interest. Amounts including interest required to complete payment of the revenue bond obligations for which notes had been executed as of June 30,1998, are as follows:

Year Ending June 30,	Principal	Interest	Total
1999	$ 262,828	$ 247,624	$ 510,452
2000	281,402	229,050	510,452
2001	301,288	209,164	510,452
2002	322,579	187,873	510,452
2003	345,376	165,076	510,452
2004 through 2011	2,182,119	428,618	2,610,737
Total Obligations	$3,695,592	$1,467,405	$5,162,997

NOTE 7. CAPITAL PROJECTS: (CONTINUED)

Maturity dates range from 2008 through 2011 with interest rates ranging from 6.50 to 6.90 percent annually. All revenues derived by the Commission from federal funds under agreement with appropriate federal authorities or other available funds are irrevocably pledged for the payment of principal and interest.

During the year, the Commission paid $400,474 and $275,192 in principal and interest, respectively, on Capital Improvement Bond Notes Payable including $145,216 additional principal upon sale of Myrtle Beach building.

The Commission has drawn $246,045 on CIB funds for which a note payable has not been established. Subsequent to year-end, $183,000 was repaid and a note was executed for $40,000 at an interest rate of 5.3% per annum maturing in 2006. A note was not executed for the remaining $13,045.

The Commission has capital projects in progress at June 30, 1998 which are expected to be completed over the next two years at an estimated total cost of approximately $2,545,000. At June 30, 1998 $413,484 was expended for the capital projects in progress which included $148,375 of land costs that has been capitalized. The estimated cost to complete the capital projects in progress is approximately $2,131,500. The Commission had outstanding commitments of approximately $218,500 attributable to the capital projects in progress at June 30, 1998.

NOTE 8. OPERATING LEASES:

The Commission has entered into operating leases for office space and office equipment. All of the leases are non-cancelable leases with no purchase options and their terms are greater than one year. Payments are due on a monthly basis. Ending payment dates range from fiscal years from 1999 through 2003. Certain operating leases provide for renewal options for periods from one to five years at their fair rental value at the time of renewal. In the normal course of business, operating leases are generally renewed or replaced by other leases. The Commission is responsible for maintenance on most leased property.

Rental expenditures for office space and equipment was approximately $336,000 and $354,000, respectively, for the year ended June 30, 1998. The following is a schedule by years of future minimum rental payments at June 30, 1998 required under the noncancellable operating lease agreements with remaining terms at June 30, 1998 in excess of one year.

Year	Amount
1999	$188,064
2000	132,221
2001	57,625
2002	17,597
2003	1,467
Total	$396,974

NOTE 9. CAPITAL LEASES:

The Commission entered into a lease of $277,556 for a new Xerox printer effective February, 1998. The lease required 60 monthly payments of $5,225 including interest at 4.9% with the final payment due January, 2003. The leasing company waived the payment for the first six months. The $26,125 due for February through June was recorded as miscellaneous revenues and debt service expenditures. Title passes to the Commission for no additional consideration at the end of the 60-month payment term.

Capital leases consist of the following:

Lease on computer equipment (CPU, software, maintenance, technical support), payable in monthly installments of $33,875 including interest at 4.3% with maturity in June, 2001	$1,052,967
Lease on computer equipment (printer), payable in monthly installments of $8,444 including interest at 4.9% with maturity in July, 1998	8,410
Lease on computer equipment (printer) payable in monthly installments of $5,225 including interest at 4.9% with maturity in January, 2003	256,930
	$1,318,307

All of the leases provide that title passes after the final payment is made.

Total payments on capital leases for the year ended June 30, 1998 was $601,703 and consisted of $529,662 of principal and $72,041 of interest.

The following is a schedule of future minimum lease payments under capital leases, together with the net present value of the minimum lease payments as of June 30, 1998:

Year Ending June 30,	Principal	Interest	Total
1999	$ 365,811	$ 44,081	$ 409,892
2000	435,847	33,350	469,197
2001	421,308	14,014	435,322
2002	59,349	3,351	62,700
2003	35,992	583	36,575
Total Obligations	$1,318,307	$ 95,379	$1,413,686

NOTE 10. DEFERRED COMPENSATION PLANS:

Several optional deferred compensation plans are available to State employees and employers of its political subdivisions. Certain employees of the Commission have elected to participate. The multiple-employer plans, created under Internal Revenue Code Sections 457, 401 (k), and 403 (b), are accounted for as agency funds of the State and included in the Comprehensive Annual Financial Report of the State of South Carolina. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan.

Compensation deferred under the Section 401 (k) and 403 (b) plans is placed in trust for the contributing employee. The State has no liability for losses under the plans. Under the Section 457 plan, all deferred compensation plan amounts and earnings remain assets of the employer (the State) subject to the claims of the employer's general creditors, one of whom is the employee participant. It is unlikely, however, that the State would ever use plan assets to satisfy claims of the State's general creditors. The portion of assets to the Section 457 plan to which the State has access is disclosed in its annual financial report.

On August 20, 1996, the provisions of Internal Revenue Code Section 457 were amended by adding subsection (g). That subsection provides that new plans will not be considered eligible plans unless all assets and income of the plans are held in trust for the exclusive benefit of the participants and their beneficiaries. Existing plans also must comply with this requirement by January 1, 1999. South Carolina's plan adopted this change effective July 24, 1998.

NOTE 11. POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS:

In accordance with the South Carolina Code of Laws and the annual Appropriation Act, the State of South Carolina provides certain health care, dental, and life insurance benefits to certain active and retired State employees and certain surviving dependents of retirees. All permanent full-time and certain permanent part-time employees of the Commission are eligible to receive these benefits. The State provides postemployment health and dental benefits to employees who retire from State service or who terminated with at least 20 years of State service who meet one or more of the eligibility requirements, such as age, length of service, and hire date. Generally those who retire must have at least 10 years of retirement service credit to qualify for these State-funded benefits. Benefits are effective at date of retirement when the employee is eligible for retirement benefits.

These benefits are provided from applicable funding sources of the Commission for the Commission's active employees and through annual appropriations by the General Assembly to the State Budget and Control Board for all participating State retirees except the portions funded through the pension surcharge. The State finances health and dental plan benefits on a pay-as-you-go basis. Approximately 19,200 retirees met these eligibility requirements as of June 30, 1998.

The Commission recorded employer contributions expenditures within the applicable program expenditure categories for these insurance benefits for active employees in the amount of approximately $2,386,000 for the year ended June 30, 1998. As discussed in Note 12, the Commission paid approximately $ 623,000 applicable to the 1.916 percent surcharge included with the employer contributions for retirement benefits. These amounts were remitted to the South Carolina Retirement Systems for distribution to the Office of Insurance Services for retiree health and dental insurance benefits.

NOTE 11. POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS: (CONTINUED)

Information regarding the cost of insurance benefits applicable to Commission retirees is not available. By State law, the Commission has no liability for retirement benefits. Accordingly, the cost of providing these benefits for retirees is not included in the accompanying financial statements.

In addition, the State General Assembly periodically directs the Retirement Systems to pay supplemental (cost of living) increases to retirees. Such increases are primarily funded from Systems earnings; however, a portion of the required amount is appropriated form the State General Fund annually for the SCRS and PORS benefits.

NOTE 12. PENSION PLANS:

The Retirement Division maintains four independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (CAFR) which includes financial statements and required supplementary information. A copy of the separately issued CAFR may be obtained by writing to the Retirement Division, 202 Arbor Lake Drive, Columbia, South Carolina 29223. Furthermore, the Division and the four pension plans are included in the CAFR of the State of South Carolina.

Some of the employees of the Commission are covered by a retirement plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Division of the State Budget and Control Board, a public employee retirement system. Generally all State employees are required to participate in and contribute to the SCRS as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws. This plan provides retirement annuity benefits as well as disability, cost of living adjustment, death, and group-life insurance benefits to eligible employees and retirees.

Under the SCRS, employees are eligible for a full service retirement annuity upon reaching age 65 or completion of 30 years credited service regardless of age. The benefit formula for full benefits effective since July 1, 1989, for the SCRS is 1.82 percent of an employee's average final compensation multiplied by the number of years of credited service. Early retirement options with reduced benefits are available as early as age 55. Employees are vested for deferred annuity after five years service and qualify for a survivor's benefit upon completion of 15 years credited service. Disability annuity benefits are payable to employees totally and permanently disabled provided they have a minimum of five years credited service. A group-life insurance benefit equal to an employee's annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service.

Since July 1, 1988, employees participating in the SCRS have been required to contribute six percent of all compensation. Effective July 1, 1997, the employer contribution rate became 9.466 percent which included a 1.916 percent surcharge to fund retiree health and dental insurance coverage. The Commission's actual contributions to the SCRS for the three most recent years ended June 30, 1998, 1997 and 1996 were approximately \$2,448,000, \$2,484,000 and \$2,452,000, respectively, and equaled the required contributions of 7.55 percent (excluding the surcharge) for each year. Also, the Commission paid in the current fiscal year employer group-life insurance contributions of approximately \$47,000 at the rate of .15 percent of compensation.

NOTE 12. PENSION PLANS (Continued):

The South Carolina Police Officers Retirement System (PORS) is a cost-sharing multiple-employer defined benefit public employee retirement system. Generally all full-time employees whose principal duties are the preservation of public order or the protection or prevention and control of property destruction by fire are required to participate in and contribute to the System as a condition of employment. This plan provides annuity benefits as well as disability and group-life insurance benefits to eligible employees and retirees. In addition, participating employers in the PORS contribute to the accidental death fund which provides annuity benefits to beneficiaries of police officers and firemen killed in the actual performance of their duties. These benefits are independent of any other retirement benefits available to the beneficiary.

Employees covered under PORS are eligible for a monthly pension payable at age 55 with a minimum of five years service or 25 years credited service regardless of age. In addition, employees who have five years of credited service prior to age 55 can retire yet defer receipt of benefits until they reach age 55. A member is vested for a deferred annuity with five years service. The benefit formula for full benefits effective since July 1, 1989, for the PORS is 2.14 percent of the employee's average final salary multiplied by the number of years of credited service. Disability annuity benefits and the group-life insurance benefits for PORS members are similar to those for SCRS participants. Accidental death benefits provide a monthly pension of 50 percent of the member's budgeted compensation at the time of death.

Since July 1, 1988, employees participating in the PORS have been required to contribute 6.5 percent of all compensation. Effective July 1, 1997, the employer contribution rate became 12.216 percent which, as for the SCRS, included the 1.916 percent surcharge. The Department's actual contributions to the PORS for the three most recent years ended June 30, 1998, 1997 and 1996 were approximately $6,900, $8,700 and $7,200, respectively, and equaled the required contributions of 10.3 percent (excluding the surcharge) for each year. Also, the Commission paid employer group-life insurance contributions of approximately $100 and accidental death insurance contributions of approximately $100 in the current fiscal year for PORS participants. The rate for each of these insurance benefits is .20% of compensation.

The amounts paid by the Commission for pension, group-life insurance, and accidental death benefits are reported as employer contributions expenditures within the applicable program expenditure categories to which the related salaries are charged.

Article X, Section 16 of the South Carolina Constitution requires that all State-operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefits and employee/employer contributions for each retirement plan. Employee and employer contribution rates to SCRS and PORS are actuarially determined. The surcharges to fund retiree health and dental insurance are not part of the actuarially established rates. Annual benefits, payable monthly for life, are based on length of service and on average final compensation (an annualized average of the employee's highest 12 consecutive quarters of compensation).

The Systems do not make separate measurements of assets and pension liabilities obligations for individual employers. Under Title 9 of the South Carolina Code of Laws, the Commission's liability under the plans is limited to the amount of contributions (stated as a percentage of covered payroll) established by the State Budget and Control Board. Therefore, the Commission's liability under the pension plans is limited to the contribution requirements for the applicable year from amounts appropriated therefor in the South Carolina Appropriation Act and amounts from other applicable revenue sources. Accordingly, the Commission recognizes no contingent liability for unfunded costs associated with participation in plans.

NOTE 12. PENSION PLANS (Continued):

At retirement, employees participating in the SCRS or PORS may receive additional service credit for up to 90 days for accumulated unused sick leave.

NOTE 13. RISK MANAGEMENT:

The Commission is exposed to various risks of loss and maintains State or commercial insurance coverage for each of those risks except for automobile collision and losses on building contents including equipment. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. There were no significant reductions in insurance coverage from coverage that was in force in the prior year. Settled claims have not exceeded any of its coverages in any of the prior three years. The Commission did not pay any material amounts for uninsured claims in 1998 and there is no ending claims liability for uninsured losses as of June 30, 1998. The Commission pays insurance premiums to certain other State agencies and commercial insurers to cover risks that may occur in normal operations. The insurers promise to pay to or on behalf of the insured for covered economic losses sustained during the policy period in accord with insurance policy and benefit program limits except for deductibles.

State management believes it is more economical to manage certain risks internally and to set aside assets for claim settlement. Several State funds accumulate assets and the State itself assumes substantially all risks for the following:

1. Claims of State employees for unemployment compensation benefits (Employment Security Commission);
2. Claims of covered employees for workers' compensation benefits for job-related illnesses or injuries (State Accident Fund);
3. Claims of covered public employees for health and dental insurance benefits (Office of Insurance Services); and,
4. Claims of covered public employees for long-term disability and group-life insurance benefits (Office of Insurance Services).

Employees elect health coverage through either a health maintenance organization or through the State's self-insured plan. All of the other coverages listed above are through the applicable State self-insured plan except dependent and optional life premiums are remitted to commercial carriers.

The Commission and other entities pay premiums to the State's Insurance Reserve Fund (IRF) which issues policies, accumulates assets to cover the risks of loss, and pays claims incurred for covered losses related to the following assets, activities, and/or events:

1. Theft of, damage to, or destruction of assets;
2. Real property;
3. Motor vehicles liability; and,
4. Torts.

The IRF is a self-insurer and purchases reinsurance to obtain certain services and specialized coverage and to limit losses in the areas of certain property and equipment and auto liability. The ISF's rates are determined actuarially.

State agencies and other entities are the primary participants in the State's Health and Disability Insurance Fund and in IRF.

NOTE 13. RISK MANAGEMENT: (CONTINUED)

The Commission obtains coverage through a commercial insurer for employee fidelity bond insurance for all employees for losses arising from theft or misappropriation, up to a maximum of $100,000 per employee. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks.

The Commission has recorded insurance premium expenditures in the applicable program expenditure categories of the general fund.

In management's opinion, claims losses in excess of insurance coverage for insured risks are unlikely, and if incurred, would be insignificant to the Commission's financial position. Furthermore, there is no evidence of asset impairment or other information to indicate that a loss expenditure and liability should be recorded at year-end for such risks. Therefore, no loss accrual has been recorded.

NOTE 14. TRANSACTIONS WITH STATE AGENCIES:

The Commission has significant transactions with the State of South Carolina and various State agencies.

The Commission received $12,000,000 under a memorandum of understanding from the South Carolina Department of Social Services to be used as the state match for the Welfare-to-Work program. $284,865 was earned as of June 30, 1998 and the remainder is included in deferred revenue.

Services received at no cost from State agencies include maintenance of certain accounting records and payroll and disbursement processing from the Comptroller General; check preparation and banking from the State Treasurer; legal services from the Attorney General; and records storage from the Department of Archives and History. Other services received at no cost from the various divisions of the State Budget and Control Board include retirement plan administration, insurance plan administration, procurement services, audit services, grant services, personnel management, assistance in the preparation of the State Budget and approval of certain budget amendments and other centralized functions.

The Commission had financial transactions with various State agencies during the fiscal year. Significant payments were made to divisions of the State Budget and Control Board for retirement and insurance plan contributions, vehicle rental, insurance coverage, office supplies, printing, telephone and interagency mail. Significant payments were also made during the year to the State Accident Fund and the Employment Security Commission for worker's compensation and unemployment insurance, respectively. The amounts of expenditures applicable to these related party transactions are not readily available.

The due to General Fund of the State represents indirect cost recoveries which had not been remitted to the State as of June 30.

NOTE 15. STATE APPROPRIATION:

The Commission received $250,554 from State appropriations during the year to use for operating expenses of the SCOICC.

NOTE 16. CONTINGENCIES:

Federal Grants - The various programs administered by the Commission for fiscal years June 30, 1998 and prior are subject to audit by the federal grantor agencies. At the present time, amounts, if any, which may be due federal grantors have not been determined but the Commission believes that any such amounts in the aggregate would not have a material adverse effect on the financial position of the Commission. Furthermore, there is no evidence to indicate that a liability should be recorded at year-end.

Purchase Commitments – In November 1993, the Commission entered into an agreement with Wang Laboratories to purchase an electronic image management system. The total estimated cost of this project equals $5,082,119 over a five–year period. Through June 30, 1998, the Commission has spent $4,072,509 on this project. These expenditures are recorded in the General Fund as capital outlay, services and supplies.

Litigation – The Commission is party to various legal proceedings arising principally in the normal course of operations. The outcome of any litigation has an element of uncertainty. Because, in the opinions of management and legal counsels, the risk of loss in excess of insurance coverage for any litigation is remote, the outcome of any litigation and claims is not expected to have a material adverse effect on the financial position of the Commission. Therefore, an estimated liability has not been recorded.

NOTE 17. TRANSFERS

The Commission has a set of accounts required by the State of South Carolina which is used to pay for the normal expenditures in the purchase and construction of agency buildings. There are three types of funds, Federal (Expendable Trust Fund), Contingency Assessment (General Fund) and Capital Improvement Bonds (Capital Projects Fund), which are used in these payments of these buildings. The authorization and appropriation for each building project is set up through an approved Statewide Permanent Improvement Program form. As invoices are received for payment against the building program, cash transfers are made for the federal and Contingency Assessment accounts into the building accounts. Only enough cash is transferred to the building accounts to cover the current invoices for payment. Once the invoices are paid, the account balance will be zero. This procedure takes place every time a building program invoice is paid. $598,866 was transferred during the current fiscal year for capital projects.

The Commission also makes transfers from the General Fund to the Expendable Trust Fund – Basic Unemployment Compensation. The Commission is allowed to recover the cost of certain buildings purchased using Reed Act Funds over a period of twenty years. These costs are transferred to the Expendable Trust Fund until authorization is received to expend the funds. $36,209 was transferred during the current fiscal year.

NOTE 18. PRIOR PERIOD ADJUSTMENTS:

The following adjustments were required to be made to various balance sheet accounts to correct errors involving the application of accounting principles for the proper recording of certain assets and liabilities and applicable fund balances as of June 30, 1997:

	General Fund	Expendable Trust Fund	General Fixed Assets
To increase amounts due from grantor for revenues to equal expenditures for federal programs	$ 440,679	$	$
To record proceeds of capital lease entered into in prior period	1,272,247		
To record amortized portion of expenditures for goods and services purchased under capital lease	(511,128)		

NOTE 18. PRIOR PERIOD ADJUSTMENTS: (CONTINUED)

	General Fund	Expendable Trust Fund	General Fixed Assets
To increase balance owed from Basic Unemployment Compensation to General Fund for penalty and interest.	108,617	(108,617)	
To decrease balance owed to Basic Unemployment Compensation from General Fund for over remitted contingency fund collections in prior year	30,970		
To decrease cash balance for contingency revenue recorded in prior year in error		(164,344)	
To record contingency receivable for collections within 60 days and assessments attributable to second quarter, 1997 and prior	1,400,417		
To decrease allowance for uncollectibles for contingency receivables to equal amount computed based on historical averages	17,076		
To increase deferred revenue for that portion of contingency receivables equal to the receivables less the provision for uncollectibles and receivables collected within 60 days	(71,368)		
To record penalties and interest receivables for collections within 60 days and assessments attributable to second quarter, 1997 and prior	98,178		
To increase allowance for uncollectibles for penalties and interest receivables to equal amount computed based on historical averages	(403,745)		
To decrease deferred revenue for that portion of penalties and interest receivables equal to the receivables less the provision for uncollectibles and receivables collected within 60 days.	375,843		
To record taxes receivable for quarter ended June 30, 1997		46,243,143	
To record increase in cash in contingency fund for expenditures charged to fund in error in prior year	39,016		
To decrease allowance for uncollectibles for taxes receivables to equal amount computed based on historical averages			
To increase deferred revenues for that portion of taxes receivables equal to the receivables less the provision for uncollectibles and portion of receivables not collected within 60 days		(3,524,777)	
To increase deferred revenue for the additional portion of local governmental amounts receivable not collected within 60 days		(33,464)	
To increase deferred revenue for the additional portion of accounts receivable from employees reimbursements not collected within 60 days		(28,392)	

NOTE 18. PRIOR PERIOD ADJUSTMENTS (Continued):

	General Fund	Expendable Trust Fund	General Fixed Assets
To increase deferred revenue for the additional portion of accounts receivable from other states not collected within 60 days		(24,410)	
To decrease allowance for uncollectibles for accounts receivable for benefit overpayments to equal amount computed based on historical average		4,322,700	
To increase deferred revenue for that portion of accounts receivable for benefit overpayments to net of receivable less provision for uncollectible and portion of receivable not collected within 60 days		(3,871,077)	
To increase due to grantor due for additional revenue recorded from benefit overpayments		(25,416)	
To decrease accounts payable for overstatement of JTPA payables as of June 30, 1997	424,759		
To decrease due from grantor for overstatement due to overstatement of JTPA payables	(424,759)		
To increase accounts payable for understatement due to omission of certain funds	(714,392)		
To increase due from grantor and other assets for understatement due to omission of certain funds	738		
To increase cash to reconciled balance	165,468		
To increase cash and cash equivalents for understatement due to omission of certain funds	674,275		
To decrease general fixed assets to agree with detailed listings			(312,264)
To reduce equipment balance for change in capitalization policy			(1,538,056)
Totals	$ 2,922,891	$42,818,926	$ (1,850,320)

Also, see Note 6 for the $1,019,125 adjustment to the beginning balances of capital leases payable in the general long-term debt account group. Also, the cash and due to grantor balances at June 30, 1997 were overstated by $3,492 and revenues and expenditures were overstated by $23,380 for the expendable trust fund – trade readjustment for the year ended June 30, 1997.

NOTE 19. CHANGES IN CLASSIFICATION:

The following adjustments were required to correct errors involving the application of accounting principles regarding proper asset, liability, and revenue account classification. These classification adjustments did not affect net fund balances.

1 Interest income receivable of approximately $10.8 million was included as cash instead of accrued interest receivable in the basic unemployment compensation expendable trust fund.

NOTE 19. CHANGES IN CLASSIFICATION: (CONTINUED)

2. Federal intergovernmental receivables were overstated and cash was understated by approximately $3.25 million.

3. The intrafund receivables in the general fund of $146,997 should have been classified as interfund receivables.

4. $21,364 reported as an interfund receivable in the special revenue fund should have been reported as cash.

5. $1,577,638 of contribution payable of the Basic Unemployment Compensation Fund of the Expendable Trust Fund were reported as deferred revenue.

6. $712,165 due from local governments in the Basic Unemployment Compensation expendable trust fund was included in Intergovernmental receivable – state instead of local governments.

7. Various revenues of the Basic Unemployment Compensation Fund of the Expendable Trust Fund were misclassified by revenue source account as follows:

	Reported	Actual
Reimbursement of unemployment compensation benefits from employers	$ 3,744,639	$ 1,161,277
Benefit overpayment recoveries		2,120,748
Intergovernmental – local	2,120,748	3,381,083
Intergovernmental – state	3,381,083	2,583,362
Totals	$ 9,246,470	$ 9,246,470

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

COMBINING BALANCE SHEET - ALL EXPENDABLE TRUST FUNDS
JUNE 30, 1998

	Basic Unemployment Compensation (UI)	Federal Employees (UCFE)	Ex-Servicemen (UCX)	Extended Benefits (EB)	Trade Readjustment (TRA)	Emergency Unemployment Compensation (EUC)	Totals
ASSETS							
Cash and cash equivalents	$ 722,238,349	$ 80,478	$ 149,788	$ 922	$ 147,990	$ 1,850	$ 722,619,377
Accrued interest receivable	12,071,823						12,071,823
Taxes receivable - net	42,259,831						42,259,831
Benefit overpayments receivable - net	5,549,986	66,767	179,968		72,447	3,242	5,872,410
Due from reimbursable employers - net	226,617						226,617
Intergovernmental receivable - net:							
State	517,059						517,059
Local governments	623,337						623,337
Due from other states	585,598						585,598
TOTAL ASSETS	$ 784,072,600	$ 147,245	$ 329,756	$ 922	$ 220,437	$ 5,092	$ 784,776,052
LIABILITIES AND FUND EQUITY							
LIABILITIES:							
Accounts payable	$ 144,601	$	$	$	$ 1,161	$	$ 145,762
Intergovernmental payable:							
Federal		85,098	161,117	922	152,684	1,900	401,721
Contributions payable	2,760,062						2,760,062
Interfund payables:							
General Fund:							
Contingency assessment	1,010,783						1,010,783
Penalties and interest	91,082						91,082
Deferred revenue	11,958,484	62,147	168,639		66,592	3,192	12,259,054
TOTAL LIABILITIES	15,965,012	147,245	329,756	922	220,437	5,092	16,668,464
FUND EQUITY :							
Fund balances:							
Reserved for Reed Act expenditures	53,522						53,522
Reserved for unemployment benefits	768,054,066						768,054,066
TOTAL FUND EQUITY	768,107,588						768,107,588
TOTAL LIABILITIES AND FUND EQUITY	$ 784,072,600	$ 147,245	$ 329,756	$ 922	$ 220,437	$ 5,092	$ 784,776,052

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - ALL EXPENDABLE TRUST FUNDS FOR THE YEAR ENDED JUNE 30, 1998

	Basic Unemployment Compensation (UI)	Federal Employees (UCFE)	Ex-Servicemen (UCX)	Extended Benefits (EB)	Trade Readjustment (TRA)	Emergency Unemployment Compensation (EUC)	Totals
REVENUES:							
Employer tax contributions	$ 165,703,475	$	$	$	$	$	$ 165,703,475
Reimbursement of unemployment compensation benefits from employers	1,068,296						1,068,296
Benefit overpayment recoveries	2,331,367	30,444	67,758		25,108	4,861	2,459,538
Intergovernmental:							-
Local	2,831,021						2,831,021
State	2,306,782			1,516			2,308,298
Other states	2,914,554						2,914,554
Federal		1,456,082	2,599,722	1,516	2,718,539		6,775,859
Interest	46,787,037						46,787,037
TOTAL REVENUES	223,942,532	1,486,526	2,667,480	3,032	2,743,647	4,861	230,848,078
EXPENDITURES:							
Current:							
Unemployment compensation benefits							
State	166,726,874						166,726,874
Federal		1,486,526	2,667,480	3,032	2,743,647		6,900,685
TOTAL EXPENDITURES	166,726,874	1,486,526	2,667,480	3,032	2,743,647		173,627,559
EXCESS OF REVENUES OVER EXPENDITURES	57,215,658	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	57,220,519
OTHER FINANCING SOURCES (USES):							
Operating transfers in - general fund	36,209						36,209
Refunds to grantors						(4,861)	(4,861)
TOTAL OTHER FINANCING SOURCES (USES)	36,209	- 0 -	0	0 -	- 0 -	(4,861)	31,348
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	57,251,867	- 0 -	0	- 0 -	- 0 -	0	57,251,867
BEGINNING FUND BALANCES as previously reported	668,036,795						668,036,795
PRIOR PERIOD ADJUSTMENTS	42,818,926						42,818,926
BEGINNING FUND BALANCES as restated	710,855,721	- 0 -	- 0 -	0 -	- 0 -	- 0 -	710,855,721
FUND BALANCE, END OF YEAR	$ 768,107,588	$ - 0 -	$ - 0 -	$ - 0 -	$ - 0 -	$ - 0 -	$ 768,107,588

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 1998

Federal Grantor/Program Title	Federal CFDA Number	Total Expenditures	Pass-Through Expenditures to Subrecipients
U.S. Department of Labor			
Labor Force Statistics	17.002	$ 892,657	$
Labor Certification for Alien Workers	17.203	75,315	
Employment Service	17.207	10,947,274	
Unemployment Insurance	17.225	28,852,585	
Trade Adjustment Assistance - Workers	17.245	3,301,020	
Employment and Training Assistance - Dislocated Workers	17.246	14,285,878	10,174,341
Employment Service and Job Training - Pilot and Demonstration Programs	17.249	355,321	
Job Training Partnership Act (JTPA)	17.250	25,713,373	21,233,319
Welfare-to-Work Grants to States and Localities (W/W)	17.253	454,507	403,264
Women's Special Employment Assistance	17.700	132,257	
Disabled Veterans' Outreach Program (DVOP)	17.801	1,179,083	
Veterans' Employment Program	17.802	39,019	
Local Veterans' Employment Representative (LVER)	17.804	1,445,032	
Job Corps	N/A	653,169	
TOTAL U.S. DEPARTMENT OF LABOR		88,326,490	31,810,924
U.S. Department of Health and Human Services			
Passed through South Carolina Department of Social Services:			
Child Support Enforcement	93.563	11,675	
Refugee and Entrant Assistance - State Administered Programs	93.566	2,346	
TOTAL U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES		14,021	
U.S. Department of Agriculture			
Passed through South Carolina Department Of Social Services			
State Administrative Matching Grants for Food Stamp Program	10.561	604,356	
TOTAL U.S. DEPARTMENT OF AGRICULTURE		604,356	
TOTAL FEDERAL ASSISTANCE		$88,944,867	$31,810,924

The Schedule of Expenditures of Federal Awards has been prepared on the accrual basis method of accounting.

ROGERS & LABAN, PA
CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL CONSULTANTS

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Mr. Thomas L. Wagner, Jr., CPA,
State Auditor
State of South Carolina
Columbia, South Carolina

We have audited the financial statements of the South Carolina Employment Security Commission (the Commission) as of and for the year ended June 30, 1998, and have issued our report thereon dated April 28, 2000 which was qualified because the Commission did not present a statement of revenues, expenditures and changes in fund balances – budget and actual for the year. Except as discussed in the preceding sentence, we conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Commission's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying schedule of findings and questioned costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable conditions A through E described on the accompanying schedule of findings and questioned costs are material weaknesses.

We also noted other matters involving the internal control over financial reporting as described on pages 44 and 45.

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This report is intended for the information of the Commissioners and management of the Commission and federal awarding and pass-through agencies and is not intended to be and should not be used by anyone other than these specified parties.

Rogers + Laban, PA

Columbia, South Carolina
April 28, 2000

ROGERS & LABAN, PA
CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL CONSULTANTS

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Mr. Thomas L. Wagner, Jr., CPA,
State Auditor
State of South Carolina
Columbia, South Carolina

Compliance

We have audited the compliance of the South Carolina Employment Security Commission (the Commission) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 1998. The Commission's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Commission's management. Our responsibility is to express an opinion on the Commission's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Commission's compliance with those requirements.

In our opinion, the Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 1998. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item X-1.

Internal Control Over Compliance

The management of the Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Commissions internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the Commissioners and management of the Commission and federal awarding and pass-through agencies and is not intended to be and should not be used by anyone other than these specified parties.

Rogers + Laban, PA

Columbia, South Carolina
April 28, 2000

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1998

SUMMARY OF AUDITOR'S RESULTS

1. A qualified opinion dated April 28, 2000 on the financial statements of the Commission for the year ended June 30, 1998 was issued.

2. Reportable conditions that were determined to be material weaknesses in internal control over financial reporting were noted as described below. No reportable conditions that are not considered to be material weaknesses are reported.

3. No instances of noncompliance that were material to the financial statements were noted.

4. No reportable conditions relating to internal control over compliance resulting from the audit of the major federal award programs are reported.

5. An unqualified opinion on compliance for major programs dated April 28, 2000 was issued.

6. An audit finding relative to the major federal award programs is reported on this schedule as required by Section 510(a) of Circular A-133.

7. The major programs of the Department are as follows:

CFDA #	Program
17.207	Employment Services
17.225	Unemployment Insurance
17.245	Trade Adjustment Assistance - Workers
17.246	Employment and Training Assistance – Dislocated Workers
17.250	Job Training Partnership Act

8. The dollar threshold used to distinguish between Type A and Type B programs was $2,668,346.

9. The Commission was determined not to be a low-risk auditee.

FINDINGS RELATED TO THE FINANCIAL STATEMENTS

A. WEAKNESSES IN FINANCIAL MANAGEMENT AND REPORTING

Condition: Our audit disclosed various weaknesses in the area of financial management and record keeping. These weaknesses include:

1. The Commission is not recording journal entries made by the auditors and the fund balances per the general ledger do not agree with the audited financial statements.

2. Journal entries to correct certain prior year balances made by the Commission were recorded in the current year's revenue and expenditure accounts causing the current year's revenues and expenditures to be misstated.

3. The management of and record keeping for the Unemployment Insurance Trust Funds were separate and apart from the management of and record keeping for the other funds that the Commission handles. There were numerous transactions between the funds and there was no reconciliation of the transactions between the insurance trust funds and the other funds. We noted a transfer to the Unemployment Insurance Trust Fund account of $18,491 which was posted to one set of books in fiscal year 1998 and the other set of books in fiscal year 1999.

4. No bank reconciliations have been prepared for a number of years for the cash funds on deposit with the State Treasurer's Office by the Finance Department to reconcile the cash on deposit with the State Treasurer with the balances in the Commission's general ledger. Finance Department personnel prepared a bank reconciliation as of June 30, 1998 and 1997 after we advised them that the audit could not be completed without the reconciliations. A prior period adjustment of approximately $165,000 was required to adjust the cash balance as of June 30, 1997.

5. The Commission recorded a liability for outstanding checks for benefits paid out of the Unemployment Insurance Trust Fund. This liability is increased as checks are prepared and issued and decreased for checks paid by the bank or voided. The general ledger liability of approximately $5 million was used on the bank reconciliation. The Unemployment Trust Fund Division did not have an actual listing of outstanding checks to supporting the balances. Over 30 days was required by Commission staff to prepare listings as of June 30, 1998 and 1997. There was approximately $78,000 more in outstanding checks than reflected on the ledger as of June 30, 1998. Also, there does not appear to be any review of the bank reconciliations by someone other than the preparer.

   Also, the reconciliation of the Unemployment Insurance Trust Fund account included an unreconciled difference of approximately $217,000 as of June 30, 1997. During fiscal year 1998, the Unemployment Insurance Trust Funds Department personnel eliminated this unreconciled difference by increasing the cash asset general ledger account and the liability for outstanding checks general ledger amount by this amount. If a list of outstanding checks had been maintained to support this liability, trust funds personnel would have been able to determine whether this was the appropriate account to be adjusted.

6. The Commission's general ledger is set up in various subfunds to record revenues and expenditures in the correct federal or state fiscal year. Adjustments to correct various account balances are frequently posted to the wrong subfund causing both subfunds to have incorrect balances. We noted journal entries that were posted backwards and entries which did not have the general ledger account number on them showing which account the amounts were posted to in the general ledger. There are various old projects which have never been closed including one project from 1993 which is still open because the entry required to close it was posted backwards. We noted cases where a journal entry would be made to one account in one month and the same type of entry was posted to a different account in the following month. If a subsequent journal entry corrected the misposting, there was no reference back to the original journal entry providing an audit trail. In many cases these mispostings are not detected because no reconciliation was performed to balance the subsidiary ledger records to the general ledger balance. We also noted that the same individual is allowed to prepare and post journal entries and that no approval is required for these entries.

7. Various subfunds of the Commission with cash balances of approximately $941,000 and $674,000 as of June 30, 1998 and 1997, respectively and accounts payable balances of $851,000 and $714,000 as of June 30 1998 and 1997, respectively were not included in the monthly and year end trial balances that were prepared by the Finance Department and used to prepare the Commission's annual financial statements.

8. Various computer reports run by the Commission from the same data file did not agree and the Commission could not explain the variances.

9. The Commission's general ledger contains some funds with balances that should be zero including cash and due to grantor. We also noted an allowance for doubtful accounts recorded in a fund with no receivables, credit balances in travel advances receivable as well as various other balance sheet accounts with balances that appeared to be incorrect.

10. The Commission is recording operating transfers between funds as an expenditure in one fund and recording the credit in the other fund directly to fund balance instead of reporting them as transfers in each fund.

11. The Commission recorded financial activities related to one subfund in both the general fund and expendable trust fund in fiscal year 1997 and 1998. This resulted in an overstatement of cash and due to grantor of approximately $53,000 and an overstatement of revenues of approximately $367,000 and expenditures of approximately $314,000 in the unexpendable trust funds for 1998. An adjustment was made for this misstatement.

12 The Commission is reconciling to the Comptroller Generals records in total and not by Program causing differences in the State's classifications and the Commission's.

Criteria: Generally accepted accounting principles and good internal controls that provide for accurate financial statements and proper segregation of duties.

Effect: The Commission is not producing accurate financial information.

Recommendation: The Commission should merge the management of and the accounting and record keeping functions of the various areas under one common management team that will be charged with the overall responsibility of ensuring that all of the records of the Commission be properly maintained. All bank accounts of the Commission should be reconciled monthly in a timely manner and supporting detail should be attached for all reconciling items including outstanding checks. All account reconciliations should be initialed and dated by the preparer and a reviewer. All other balance sheet accounts should be agreed to supporting schedules. Procedures should be put in place to ensure for proper cut-off procedures at year-end. Proper segregation of duties should be established and maintained so that the same individual cannot prepare and post journal entries to the accounting system.

B. TAXES RECEIVABLE MISSTATED

Condition: The Commission did not properly record its unemployment taxes receivable on the modified accrual basis of accounting. The primary cause of the misstatement is the failure to accrue the taxes receivable for the second quarter which ended on June 30.

Criteria: Governmental accounting standards require the Commission to use the modified accrual basis of accounting which requires the accrual of all revenue amounts that are both measurable and available which the Commission has defined as amounts collected within 60 days after the end of the year.

Effect: Taxes receivable and related revenues of approximately $32 million were not recorded for the year ended June 30, 1998 and taxes receivable and revenues were understated by approximately $43 million as of June 30, 1997. Adjustments were made to correct the errors.

Recommendation: That the Commission should record its taxes receivable and the related revenue in accordance with the modified accrual basis method of accounting and the Commission's revenue recognition policy.

C. ACCOUNTS PAYABLE FOR JTPA PROGRAM MISSTATED

Condition: Our audit disclosed that the Commission was substantially overstating accounts payable for the JTPA program on the general ledger and understating accounts payable on the Accounts Payable Closing Package, which it prepares for the State Comptroller. Accounts payable were overstated by approximately $425,000 in 1997 and $615,000 in 1998 on the general ledger. A completely separate listing was prepared to support the closing package which was understated by approximately $900,000 as of June 30, 1998.

The general ledger overstatement apparently occurred because of the procedures used by the personnel in the JTPA Department in requesting information from subrecipients. The closing package for accounts payable was apparently overstated because Finance Department personnel estimated the accounts payable by taking the budget less the year to date expenditures, but only did this for certain of the programs.

Criteria: Generally accepted accounting principles that require that accruals be based on actual amounts to be paid and the State's GAAP Manual requires all agencies to submit accurate closing packages.

Effect: Failure to accurately record payables for this program resulted in an overstatement of federal revenues and expenditures. Adjustments were made to correct the errors.

Recommendation: That the Commission should review and revise its procedures for estimating and recording accounts payable. Also, the same listing should be used for support to post the journal entry to the general ledger and to prepare the closing package.

D. JUNKED EQUIPMENT NOT REMOVED FROM THE GENERAL LEDGER

Condition: The Finance Department did not adjust its general ledger for equipment that was junked during the current year.

This apparently occurred because personnel in the property management control section did not notify the Finance Department of these disposals. The Finance Department reconciles the general ledger control account for these assets to the detail equipment listing maintained by the Finance Department instead of the listing maintained by the property management control section.

Criteria: Generally accepted accounting principles and internal controls which provide for accurate financial information and control procedures including reconciliations.

Effect: Equipment was overstated by approximately $716,000. Adjustments were made to correct the error.

Recommendation: Procedures should be implemented to ensure that all disposals are timely recorded in the general ledger. The Commission should consider eliminating the detailed listing maintained by the Finance Department and should reconcile the general ledger to the detail maintained in the Property Control Management Section. We understand that the program used by the property management control section may need to be modified so that depreciation can be calculated for use in the various programs.

E. PAYROLL ACCRUAL OVERSTATED

Condition: The Commission's system automatically accrues and allocates the payroll for each month that is paid in the subsequent month. Included in this accrual is approximately $200,000 for health and dental insurance which should not be accrued because these benefits are paid at the beginning of each month for that month and not in arrears. Also, the amount does not agree with the Comptroller General's actual amount paid primarily because the Commission's system cannot handle a pay rate change in the middle of the month.

Criteria: Generally accepted accounting principles that require that accruals be based on actual amounts to be paid.

Effect: The accrual for accrued salaries and employer contributions was overstated. Adjustments were made to correct the overaccrual of health and dental insurance.

Recommendation: A programming change should be implemented to correct the calculation of this accrual.

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

X-1. ALL PROGRAMS

Statement of Condition: OMB Circular A-133 Subpart C – Section 320 required Single Audit reports to be submitted no later than 13 months after the end of the audit period for the fiscal year ended June 30, 1998, the first year of the requirement (and within 9 months in subsequent years). The Commission did not meet this requirement for the year ended June 30, 1998.

Criteria: OMB Circular A-133 Subpart C – Section .320.

Effect of Condition: Failure to follow federal regulations.

Cause of Condition: Failure to have prior year audits completed timely and failure to have current year's records ready in time to complete audit within specified timeframe.

Recommendation: Implement procedures to have records and financial statements timely completed and audited and reports submitted within the required deadlines.

OTHER MANAGEMENT LETTER COMMENTS
FOR THE YEAR ENDED JUNE 30, 1998

LEASE PAYMENTS PAID TWICE

Our audit disclosed that a lease payments of $33,875 a month due under a capital lease for January and February, 1998 were paid in March 1998 and again in May 1998 supported by a faxed copy of an invoice from the leasing company. The Finance Department had not detected this duplicate payment and as of May 1999 the Commission was still 2 payments ahead of the required amount due. In addition, we noted that the Finance Department does not cancel vouchers and supporting documentation to ensure that the same invoice is not paid twice and the Finance Department does not document on the invoice that it is clerically correct.

Good accounting controls require that a system be in place to prevent the duplicate payment of invoices. Personnel in the Finance Department should have investigated why the invoice due in January and February had not been paid before authorizing it to be paid again in May. Also, good controls dictate that the invoice be reviewed to determine if all amounts are correct before it is processed.

We recommend that the Commission implement a system to ensure that all invoices are correct and due before they are approved for payment. All invoices and other documentation supporting expenditures should be cancelled to prevent duplicate payment and procedures should be implemented to ensure that any questionable invoices are investigated before they are paid. The Commission should also either recover the duplicate payments or adjust the subsequent amounts due under the lease to recover the overpayment.

FIXED ASSET DEFICIENCIES

The following deficiencies were noted during our audit of fixed assets:

1 The tag numbers for some fixed assets did not agree with the tag numbers per the detail listing.

2. A piece of equipment that had been surplused in February 1998 was still on the Finance Department's detail listing as of June 30, 1998.

3. One piece of equipment could not be located.

Proper controls require that adequate records be maintained supporting fixed assets and that a periodic inventory verification be performed to ensure that all fixed assets are still on hand and agree to the detail listing. State law (SC Code of Laws Section 10-1-140) requires a physical inventory of capital assets be performed annually, at a minimum.

We recommend that the Commission implement procedures to ensure that all fixed asset tag numbers agree to the detail fixed asset listing and that all items that are disposed of, junked, etc. be promptly removed from the fixed asset system. A periodic fixed asset inventory verification should also be performed of all fixed assets.

INVENTORY DEFICIENCIES

Our audit of the Commission's supply inventory disclosed the following deficiencies:

1 Obsolete inventory totaling approximately $12,000 was being included in the Commission's inventory total.

2. One inventory item that was carried at no cost in the prior year had a cost of $26 this year and no one in the supply inventory department could provide an explanation.

Generally accepted accounting principles require that obsolete inventory items be written off in a timely manner and that inventory be consistently recorded at its costs.

We recommend that the Commission only include useable inventory in its count and that all items of inventory be recorded at cost.

ERRORS IN FUTURE OPERATING LEASE LIABILITY SCHEDULES

The future operating lease commitments schedule contained on the closing package that was provided to the State Comptroller and the supporting schedule understated the future minimum lease payments under noncancellable operating leases. The first time the Finance Department personnel revised the schedule for us, they did not take into account leases which had scheduled rent increases of 5% per year. The second time that the Finance Department revised the schedule, it contained errors in 22 out of 79 leases including incorrect ending dates and incorrect amounts for the future liabilities.

The Finance Department was not aware that some leases contained scheduled rent increases because the Commission's Purchasing Department did not notify them. The remainder of the errors appeared to be because of the lack of adequate supervision and review of the closing package.

Good accounting practices require that all schedules be prepared correctly

We recommend that additional care be taken in the preparation of the lease schedule. The person preparing the schedule should review the actual leases to ensure that all data included on the schedule is correct.

INTERNAL AUDIT STAFF NEEDED

The Commission should consider setting up an internal audit department that reports directly to the Board of Commissioners. An agency of this size should have independent reviews of the various areas of accountability throughout the year. The scope of internal audit would include performing reviews of the field offices as well as the offices in Columbia. Areas to be reviewed would include payroll payoffs, new hires and terminations, fixed assets and supply inventory verifications, timesheets, reconciliations of various general ledger accounts including cash as well as internal controls over the various areas.

We feel that if the Commission put in place a functioning internal audit staff, it would eliminate some of the problems encountered during our audit.

MANAGEMENT'S RESPONSE
Appendix A

UNEMPLOYMENT INSURANCE

JOB SERVICE

South Carolina
Employment Security Commission

COMMISSION
J. William McLeod, Chairman
(803) 737-2652
Samuel R. Foster, Vice-Chairman
(803) 737-2656
Carole C. Wells, Commissioner
(803) 737-2655

EXECUTIVE DIRECTOR
Joel T. Cassidy
(803) 737-2617

1550 Gadsden Street
Post Office Box 995
Columbia, South Carolina 29202

June 9, 2000

Mr. Thomas L. Wagner, Jr.
State Auditor
Office of the State Auditor
1401 Main Street
Suite 1200
Columbia, South Carolina 29201

Dear Mr. Wagner:

The South Carolina Employment Security Commission respectfully submits the following Corrective Action Plan for the year ended June 30, 1998. The finding is listed consistent with the letter assigned in the schedule.

A. **Weaknesses in Financial Management and Reporting**

Recommendation: (1) The Commission merge the management of and the accounting and record keeping functions of the various areas under one common management team that will be charged with the overall responsibility of ensuring that all of the records of the Commission be properly maintained. (2) All bank accounts of the Commission should be reconciled monthly in a timely manner and supporting detail should be attached for all reconciling items including outstanding checks. (3) All account reconciliations should be initialed and dated by the preparer and a reviewer. (4) All other balance sheet accounts should agree to supporting schedules. (5) Proper segregation of duties should be established and maintained so that the same individual cannot prepare and post journal entries to the accounting system.

Response: The Commission does maintain two separate accounting sections, one for Unemployment Insurance (UI) one for the other agency funds. This observation was made in a previous audit (year ended 09/30/84). After thorough consultation with our cognizant Federal agency, the United States Department of Labor/Employment and Training Administration, it was decided that the Commission's organizational structure was functional and contributed to the overall mission of the agency. We feel that this decision is still pertinent and correct. However, we are designing a formal reconciliation process between the two units that should eliminate inconsistencies in the future. The agency concurs on all other aspects of the recommendation and the Commission is reviewing and revising procedures to concur with audit recommendations.

B. **Taxes Receivable Misstated**

Recommendation: That the Commission should record its taxes receivable and the related revenue in accordance with the modified accrual basis method of accounting.

Response: The Commission has revised its procedures to assure taxes receivable and the related revenue for the second calendar/quarter, which ends June 30, are recorded in accordance with the modified accrual basis method of accounting.

C. **Accounts Payable for JTPA Program Misstated**

Recommendation: That the Commission should review and revise its procedures for estimating and recording accounts payable. Also, the same listing should be used for support to post the journal entry to the general ledger and to prepare the closing package.

Response: The Commission concurs with this observation and is revising its procedures for estimating and recording accounts payable.

D. **Junked Equipment not Removed from the General Ledger**

Recommendation: Procedures should be implemented to ensure that all disposals are timely recorded in the general ledger. The Commission should consider eliminating the detailed listing maintained by the Finance Department and should reconcile the general ledger to the detail maintained in the Property Control Management Section. We understand that the program used by the property management control section may need to be modified so that depreciation can be calculated for use in the various programs.

Response: The Commission has revised its procedures to insure all disposals are recorded timely in the general ledger. The Commission is reviewing the possibility of obtaining a new Property Management System.

E. **Payroll Accrual Overstated**

Recommendation: A programming change should be implemented to correct the calculation of this accrual.

Response: The Commission has changed its procedures to eliminate this discrepancy in the future.

X-1 FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

All Programs

Recommendation: Implement procedures to have records and financial statements timely completed and audited and reports submitted within the required deadlines.

Response: The agency is revising its procedure in order to comply with OMB Circular A-133.

Lease Payments Paid Twice

Recommendation: That the Commission implement a system to ensure that all invoices are correct and due before they are approved for payment. All invoices and other documentation supporting expenditures should be cancelled to prevent duplicate payment and procedures should be implemented to ensure that any questionable invoices are investigated before they are paid. The Commission should also either recover the duplicate payments or adjust the subsequent amounts due under the lease to recover the overpayment.

Response: The Commission has recovered the duplicate payments from the vendor. The Commission has also changed its procedures and payments are not made from faxed copies without approval of an accounting supervisor.

Fixed Asset Deficiencies

Recommendation: That the Commission implement procedures to ensure that all fixed asset tag numbers agree to the detail listing and that all items be promptly removed from the fixed asset system. A periodic fixed asset inventory verification should also be performed of all fixed assets.

Response: The Commission is reinforcing the importance of fixed asset management with its cost center managers. An inventory is being conducted by the Property Management Department on each cost center annually.

Inventory Deficiencies

Recommendation: That the Commission only include useable inventory in its count and that all items of inventory be recorded at cost.

Response: The Commission has disposed of the obsolete inventory. The Commission is reviewing its procedures to insure all items are recorded at cost.

Errors in Future Operating Lease Liability Schedules

Recommendation: That the Commission take additional care in the preparation of the lease schedule. The person preparing the schedule should review the actual leases to ensure that all data included on the schedule is correct.

Response: The Commission has revised its policies to assure the Finance Department has a valid copy of all lease agreements. This procedure will eliminate receiving incorrect information from other cost centers used to prepare schedules.

Internal Audit Staff Needed

Recommendation: The Commission should consider setting up an internal audit department that reports directly to the Commission. An agency of this size should have independent reviews of the various areas of accountability throughout the year. The scope of internal audit would include performing reviews of the field offices as well as the offices in Columbia. Areas to be reviewed would include payroll payoffs, new-hires and terminations, fixed assets and supply inventory verifications, timesheets, reconciliations of various general ledger accounts, including cash as well as internal controls over the various areas.

Internal Audit Staff Needed (Continued)

We feel that if the Commission put in place a functioning internal audit staff, it would eliminate some of the problems encountered during the audit.

Response: The Director of Internal Audit reports directly to the Executive Director. However, the Commission has made it clear to the Director of Internal Audit that he should feel free to report and discuss with them any significant issues regarding agency operations. These issues may relate to deficiencies noted during monitoring visits (financial and programmatic), procurement procedures and other internal reviews. Therefore, it is our belief that this arrangement does not preclude the Director of Internal Audit from reporting significant deficiencies directly to the Commission. The Director of Internal Audit will discuss the condition and recommendation outlined in the Management Letter with the new Executive Director who takes office July 1, 2000. In the meantime we are looking into ways to conduct the reviews mentioned either through reorganization or possibly hiring additional staff so that these reviews can be conducted.

Due to the timing of the field work of the audit for June 30, 1998 some of the Commission corrective actions will not be reflected until the June 30, 2000 financial statements.

If there are any questions, or if additional information is needed, please contact Charles D. Reeves at 737-2560.

Sincerely,

Joel T. Cassidy
Executive Director

JTC:sc
REF: ESC-4